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# **A Study on Business Ethics in Internet Commerce**

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## **ABSTRACT**

Although the rapid development of Internet commerce has brought new vitality for business model, it brings a lot of business ethics problems. This paper explores the business ethics in Internet environment. Because Information and Internet technology changes faster than business ethics, Business ethics lag arises. This results in ethics problems in Internet commerce. There isn't a particular Internet or e-commerce ethics, and the contents and norm of business ethics in Internet commerce are not fundamentally different from those in traditional commerce. However, the manifestations and scope of ethics issues in Internet commerce are different. The decision-making and implementation of ethics in Internet businesses environment differs from those in traditional businesses environment. The most prominent ethics problems in Internet commerce are online privacy and integrity. The governance of Internet business ethics should be conducted from three levels---institutional ethics, corporate ethics and individual ethics.

**Keywords:** Internet Commerce, Business Ethics, Online privacy, Ethics Governance.

## **INTRODUCTION**

Wide application of Internet and information technology has brought changes in economic and social life, and has provided new vitality for the development of business models. New business models constantly emerge on Internet, at the same time the Internet business model brought many ethical problems <sup>[1]</sup>.

For example, Baidu PPC promotion services which is launched by famous Chinese search engine company have been criticized. Search engine technology was originally used in providing information retrieval services for Internet users who fall into a vast sea of information. Search engine effectively collect, process and present information on the Internet according to user requirement. It is inevitable that companies construct business models and pursuit profits based on search engine technology. Baidu launched the PPC, Google launched ADWORDS. They let search results ranked according to bid. However, both of them abandoned the original criterion that information search results should be presented by its value. Baidu PPC undoubtedly helps Baidu company gain great commercial interests. Baidu's bid ranking contributed to 99% of its total revenue <sup>[1]</sup>. Although Baidu PPC does not violate the law, it undoubtedly violates business ethics in the eyes of the public. People denounced Baidu company because Baidu had provided false medical information in their search results <sup>[2]</sup>. In addition, Internet commerce companies can obtain a large number of users' privacy data. It has become worrisome problem whether companies could use these privacy data in compliance with legal and ethical issues. According to Reuters report, the US Apple employees can access iPhone users SMS, contacts, photos and other personal data through an undisclosed technology, and they don't inform their users <sup>[3]</sup>.

Disclosure of these events raised concerns of people in the Internet age. Many Internet business ethics issues emerge, and their effects and consequences are amplified by the Internet. We have to think about business ethics in Internet commerce. Is there unique business ethics in Internet business models? Compared with traditional commerce activities, what are the most worrying business ethics problems in Internet commerce activities? And how to efficiently deal with these ethics problems in Internet commerce?

## **BUSINESS ETHICS IN INTERNET COMMERCE ACTIVITIES**

Ethics is a norm which could manage behavior of individuals or groups, and it verify social norms or individual moral standards <sup>[4]</sup>. Ethics manage all spontaneous human activities, and obviously, it should manage commerce activities <sup>[4]</sup>. Business ethics would form when ethics is integrated into commerce activities. Business Ethics include ethics norms, values analysis and how to apply them in commercial organizations, institutions and activities <sup>[4]</sup>. Business ethics is a branch of applied ethics, which focuses on human commercial activities <sup>[5]</sup>. Business ethics involve not only handling the relationship with employees, leadership, shareholders within organization, but also handling the relationship with suppliers, customers, strategic partners, competitors, society outside the organization. Business Ethics cover all commercial activities from the inside and outside organization. The contents of business ethics involved in Internet commerce are same. But whether ethics issues in Internet commercial activities have its unique feature?

Internet commerce is no essentially different from traditional commerce. Both Internet commerce and traditional commerce include production, trading, purchasing, selling, consultation, cooperation, and so on. Ethics issues involved in Internet commerce are same as those involved in traditional commerce, such as fairness (digital divide), intellectual property, privacy and informed-consent, protection of children, security of information, trust, etc.. From this point, particular e-commerce business ethics does not exist. But ethics issues in e-commerce have different expressions and scope compared with that in traditional brick-and-mortar business <sup>[6]</sup>.

Significant differences between Internet commerce and traditional commerce are forms and means of commercial activities. The application of information and network technology is a key feature that Internet commerce differs from traditional commerce. In 1990s, growing concern of business ethics focus on those ethics problems triggered by widely application of advanced information technology. Broadly speaking, Information technology includes computers, telecommunications and Internet technology. People can obtain, manipulate, process and exchange information through Information technology. IT changes the form of commerce activities. IT can even affect the structure and behavior of commercial organizations. For example, IT can enhance the competitiveness of enterprises, then competition become fiercer, then intense competition ask organizations to response quickly and nimbly, in the end this can promote organizational structure flat. When business ethics development is adapted to technology development, there is no business ethics problem. When technology change far exceeds business ethics development, business ethics lag emerges. This lag lies in the difference of culture and technology. The progress of technology may be huge, but the progress of culture, including ethics and moral, is always slow. This ethics lag leads to the lack of explore in E-commerce ethics<sup>[6]</sup>. The change and innovation of information technology have brought new values which would collide with old values. The period of collision and reconstruction exactly corresponds with the period of ethics lag, and this ethics lag will damage business system because it would be harmful to agreeing on what is acceptable behavior in business activities<sup>[6]</sup>. E-commerce rises rapidly, and the rapid development of technology continually bring new products, services, sales strategy, and business ethics problems<sup>[7]</sup>.

Whether different manifestations and scope of Internet commerce would lead to different ethics criterion? Both Internet technology innovation and Internet business model innovation are very quickly. In order to grow rapidly in dramatic changes, Internet companies often take some extreme competition strategy. For example, Internet companies often provide their users with free service, in order to gain competitive advantage through network externalities. Whether different ethical rules could be applicable in free services? Should free users accept intrusive advertising, spam, loss of privacy? Obviously, most people cannot accept these even though they are provided with free services. Although the business ethics rules expected by people in Internet commerce are not fundamentally different from those in traditional commerce, the practice of ethics principles and moral standards in e-commerce environment may be different<sup>[6]</sup>.

Yahoo was prosecuted in France in 2000 because Yahoo's French version allowed French people to access a auction website of Nazi memorabilia. Thus Yahoo France website blocked this Nazi memorabilia website, but people still could browse this Nazi memorabilia website through its US website. Although Yahoo company sued to US court to protest in 2005, its legal struggle is futile and may damage its business according to a related study<sup>[8]</sup>. This may affect the reputation of Yahoo. The study suggests that companies should deal with this problem from the point of view of corporate social responsibility standards so that companies avoid those aggressive and anti-social expression<sup>[8]</sup>. In the long run, this suggestion undoubtedly is beneficial to the development of enterprises. This example illustrates expression of business ethics in Internet commerce is more complex. Due to the cultural conflict of transregional and cross-border Internet commerce, Internet companies face more complex legal and moral hazard. In the practice of ethical rules in Internet environment, enterprises should be more cautious in the face of moral recommendations and injunctions. Certainly, enterprises' decisions of business ethics may be more complex.

How should Internet companies make decisions about business ethics? Internet service providers can choose to pre-screen and reject any content. Yahoo had claimed that it had right rather than obligation to choose or not choose pre-screen<sup>[8]</sup>. However, the most popular search engine in the world, Google, took a completely different strategy. In 2002, Google quietly removed more than 100 controversial websites in its search results list, but it suffered intense criticism because it didn't discuss and explain its decision. Google removed anti-Semitic, pro-Nazi, white supremacist websites from Germany Google and France Google<sup>[9]</sup>. Google spokesman announced that Google News would not allow hatred content<sup>[10]</sup>. Google consciously avoided that racism spreads through Google website. Google took the initiative to adopt ethical norms of corporate social responsibility<sup>[8]</sup>. Basically, Internet companies need to make an plan associated with corporate social responsibility, and they have to strive to balance its business ethics decision in complex Internet commerce environment.

### **BUSINESS ETHICS PROBLEMS IN INTERNET COMMERCE**

According to the preceding, we know the contents and norm of business ethics in Internet commerce are not fundamentally different from those in traditional commerce. But some business ethics problems are more prominent in Internet commerce than in traditional commerce. There are two prominent ethics problems in Internet commerce. One is privacy problem, as a result of misuse of personal information collected by Internet companies, the other is integrity problem owing to digitizing and virtualization means of Internet commerce.

#### **Privacy Problem**

Information technology changes information collection, processing, using, exchanging fundamentally. The data of information systems can be easily generated, replicated and saved automatically. In-depth data analysis can be conducted through advanced data analysis and data mining techniques. Internet companies can use these data in a variety of commerce activities conveniently. For example, E-commerce companies can conduct marketing by analyzing a huge amount of user data accumulated in their e-commerce system. Internet commerce has significant advantage of data and information compared with traditional commerce.

If Internet companies can not exploit data and information advantage in compliance with ethics and morality, there will be serious ethics problems.

Whether information technology companies can protect privacy is a problem that people is very concerned about<sup>[11]</sup>. The concern about online privacy is increasing with the popularization of the Internet. When people apply to become registered users or shop online, Internet companies can collect their identity card number, address, email, credit card number and other personal identifying information. When people access the website anonymously, companies can collect their click-stream data, IP address and other anonymous information. Companies can use this information to improve service for their customers. However, companies may use this information to send disturbing advertisements and e-mails. Only when people are able to control data collection and subsequent data use, their privacy can be safeguarded<sup>[12]</sup>.

A large number of disputes caused by online privacy demonstrate that online privacy problem is very serious. In February 2012, Google and some advertising companies monitored and tracked Apple users' web browsing habits without informing these users by bypassing privacy settings of Apple safari browser<sup>[13]</sup>. Although Google argued that they didn't collect identifiable personal information, there is no doubt that Google violated users and damaged their right to know. Google violated business ethics of online privacy. Facebook also bypassed privacy protection of IE browser and tracked IE users with cookies<sup>[14]</sup>. In China in 2008, 73.27% websites collect personal data exceeding services need, 4.75% websites collect information completely irrelevant to their services, 54.69% Internet users worry about online privacy, 26.43% Internet users believe that online privacy infringement seriously affect their online life<sup>[15]</sup>.

Because legislation on online privacy is inadequate, Internet companies have excessive discretion of online privacy, online privacy protection depends on companies' ethics and moral standards. Morality hazard would increase, and the complexity of business ethics would increase. Even in the US and EU countries, legislation on privacy is behind technology development<sup>[16]</sup>. In the case of inadequate legislation, companies may decide how many privacy choices they are willing to give their users and how many data processing facts they are willing to reveal to their users. Internet companies can exploit the advantage of controlling data, they may ignore user's rights for commercial interests. A study indicate that online privacy just plays a minor role in corporate social responsibility even in Global 500 companies and Forbes top 1,000 IT-related services and products companies<sup>[16]</sup>. According to the report of British "Financial Times", the executives and investors in US Silicon Valley finally admitted that they didn't realize global concern about online privacy<sup>[17]</sup>. In short, Internet companies ignore business ethics of online privacy, they do not take it as an important issue in their corporate social responsibility.

Moreover, the rapid development of information technology, such as Mobile Internet technology, Cloud technology and Big Data technology, brings online privacy challenges. With the popularity of mobile Internet, various Internet services are extended to smart phones with lots of personal information. The leakage or misuse of personal information will damage users. Cloud technology means better use of resources and more business opportunities, but it may mean greater risk. Cloud technology means that users data security would rely on external. Users' data security will depend on their service provider's security technology capability and online privacy policy. Apple's iCloud allows users store personal information to Apple's servers, but people more worry about data security after Hollywood Pornographic incident<sup>[18]</sup>. Accidents of online privacy would influence Cloud services. For example, Snowden event would cause great losses of the cloud service market<sup>[17]</sup>. Big Data technology helps people find useful information rapidly from a large amount of data. This useful information can be used in the field of business, economics and public administration. Meanwhile Big Data technology brings online privacy challenges. The essential ethics criterion of Internet privacy is "inform and licensing". Internet companies would inform their users and get permission when they collect users' data. However, Big Data technology use data second time, and "Inform and licensing" of data collection seldom include secondary usage of data<sup>[19]</sup>. The main ethics issue of Big Data is whether privacy laws and regulations can promote socially beneficial application of Big Data. In other words, whether Big Data applications are unacceptable to society or culture? What is the ethical boundaries of data analysis<sup>[20]</sup>?

### Integrity Problem

Integrity means following ethical values and obeying restrictions and regulations<sup>[21]</sup>. A honest enterprise would comply with laws and regulations, and would not intentionally infringe benefit of customers, employees, and competitors by cheat, distorting, blackmail. The behavior lack of credibility and integrity would destroy trust, thereby would damage the development of business systems. Online integrity is the extension of social integrity on Internet. Individuals and organizations with integrity would be honest and trustworthy, not release fake information, not infringe the rights and interests of others on Internet.

Credibility and integrity problem has been bothering Internet commerce. Many companies choose to disclose business and financial information on its website, but the authenticity of this information is almost uncensored. A study finds that the credibility and integrity of financial information published on Internet of 100 large European companies is very worrisome<sup>[22]</sup>. US data in 2011 shows that there are more than 300,000 complaint cases of Internet fraud for three consecutive years<sup>[23]</sup>. According to an investigation of online fraud released by an famous Finnish security organization in 2014, 1 out of every 10 person in the world has become a victim of Internet fraud, victimization rate of Europe is 12%, and victimization rate of U.S. is

up to 20%<sup>[24]</sup>. In China, integrity problem is more serious than the United States and Europe due to underdeveloped credit mechanism. February 2011, China.cn of Alibaba Group was exposed that global buyers were defrauded in international trading. In 2009 and 2010, more than 2300 suppliers in China.cn were suspected being involved in fraud, some Alibaba employees acquiesced or even helped these suppliers to evade authentication and verification by taking advantage of loophole in China.cn<sup>[25]</sup>. The data show that more than 61 million Chinese Internet users encounter fraud in online shopping in 2011, and this resulted in the loss of more than 30.8 billion yuan according to an estimate<sup>[26]</sup>. Integrity problem is harmful to the development of Internet commerce. To combat online fraud and illegal business is difficulty in technique and takes more social and economic costs.

Trust will reduce costs in Internet commerce, but building trust on Internet is particularly difficult compared to in the offline world. Trust is generally defined as the probability that two randomly selected persons will believe each other in a one-time interaction, and economists think that trust will reduce transaction costs<sup>[27]</sup>. Empirical data shows that social trust has promoted e-commerce<sup>[28]</sup>. Higher level of social trust, higher possibility of economic transactions between people. Trust is a key factor in reducing uncertainty and complexity in Internet commerce, but trust in Internet commerce is more complex. Firstly, technological innovative Internet would increase user's risk perception, and risk perception and trust are important factors that affect consumer behavior. A study on consumer trust and use of online financial services finds that trust in website would affect adopting intention<sup>[29]</sup>. The study also finds that transaction security, reputation of websites and company would affect user's cognitive trust<sup>[29]</sup>. A study shows that there are two factors of trust in online shopping, the first one is social trust that is consumers' perception of integrity of suppliers, the second one is technical trust that is consumers' perception of supplier capability<sup>[30]</sup>. Secondly, virtualization and digitization of Internet commerce activities make trust-building more complicated. Direct face-to-face meeting is key to trust-building, but Internet commerce activities lack this effective interaction. It is difficult for consumers to trust in a unfamiliar online retailer, and it would take more time to build trust online than offline<sup>[31]</sup>. In addition, e-commerce experience can promote general social trust<sup>[32]</sup>. Anyhow, online trust is more difficult to be built, and the lack of online trust means more ethics risk.

## BUSINESS ETHICS GOVERNANCE OF INTERNET COMMERCE

Enterprises must abide by business ethics standards, otherwise the business system can't develop in a healthy way. The behavior in accord with ethics can lay the foundation for mutually beneficial transactions between enterprises, and can promote cooperation. Although there is no strong evidence that ethical enterprises must have more profitability than unethical enterprises, the companies complying with business ethics provide a higher rate of return in stock market in a investigation of performance of socially responsible companies<sup>[33]</sup>. Internet commerce has become an important part of current economic system. Therefore, the governance of business ethics in Internet commerce cannot be ignored now.

Business ethics include institutional ethics, corporate ethics and individual ethics<sup>[4]</sup>. Institutional ethics refers to economic, political, legal environment of business; corporate ethics refers to activities, policies, structures, etc. of a particular organization; individual ethics refers to individual behavior, decisions, personality etc. in a organization<sup>[4]</sup>. Consequently, the governance of Internet business ethics can be carried out from the three levels.

### Improve Institutional Ethics of Internet Commerce

Business ethics needs to be institutionalized, and institutionalization refers to force of law and society. There should be rewards and penalties to specific behavior associated with business ethics according to the evaluation of stakeholder<sup>[21]</sup>. The institutionalization of business ethics mainly includes two points: (1) obligatory laws and regulations; (2) non-obligatory self-regulation treaty (including industry guidelines, authentication and certification mechanism, etc.) .

In the United States, online privacy protection mostly relies on industry self-regulation. In 1998, US Department of Commerce issued the "Elements of Effective Self-Regulation for Protection of Privacy". The US Congress proposed the "Children's Online Privacy Protection Act of 1998", and the bill does require that websites should inform privacy policy and that websites need parental permission before they collect personal information of children under the age of 13<sup>[34]</sup>. The bill was introduced on April 21, 2000. Highly developed Internet technology and e-commerce provide a strong impetus for US economy, so the US government always avoids excessive legal restrictions to online business. As for online privacy protection, the US government advocates industry self-regulation in order to avoid undue restrictions to the market. The Advantage of self-regulation is that the market can resiliently dynamically adjust according to industry regular pattern, thus this can avoid that the development of technology and economy is blocked by obligatory restrictions. There is a lack of uniform standards and powerful enforcement in industry self-regulation pattern, and online privacy infringement cannot be effectively resolved. In subsequent years after the introduction of these bills, online personal information were stolen more and more seriously according to Federal Trade Commission's data<sup>[35]</sup> and other survey<sup>[36]</sup>. Therefore, the United States turned to strengthen legislation to protect online privacy. In 2012 the United States issued the "Consumer Data Privacy in A Networked World: A Framework for Protecting Privacy and Promoting Innovation in the Global Digital Economy", detailed legal rules and regulations would be formulated and be legislated by the US Congress<sup>[37]</sup>.

Online privacy protection mainly relies on legislation in EU countries. The EU required its member states to establish a unified online privacy protection laws and regulations through a series of principles, guidelines and proposals. Moreover, the EU makes efforts to turn these into international criterion, and the EU request non-EU countries which have commercial intercourse with the EU to protect online privacy. Although the EU legislation is strict and meticulous, these restrictions may increase the cost of online service providers, even may hinder the development of technology and economy. In addition, the development of Internet technology is so rapid and the legislation always lags behind technology, it would become difficult that adequate online privacy protection can be provided.

Both obligatory laws and non-obligatory self-regulation treaty have advantages and disadvantages. Enhancing legislation is necessary to business ethics in Internet commerce, but the legislation should be circumspect. Hasty enactment of legislation and rigid laws may affect the vitality of Internet commerce. Promoting technology development and economic development need to be balanced in legislation process. In particular, online security and privacy problems incurred by Cloud computing and Big Data technology become big challenges for legislation. How to strengthen legislation without hindering technology development and reasonable application is very important.

In China, the challenges of online privacy and integrity is enormous. Learn from the experience of Europe and US, China needs to enhance both legislation and industry self-regulation in order to establish institutional business ethics of Internet commerce. At present, there is not complete laws of privacy protection in China, specially there is a significant lack of consumer privacy protection. In order to effectively protect online privacy, privacy legislation becomes principal. Meanwhile, industry regulations need to be improved systematically, including verification, evaluation, arbitration, sanctions, dispute resolution mechanisms. The lack of credit system is one of the important reasons for integrity problem in China. Inadequate legislation and poor enforcement lead to low cost of dishonesty, thereby the level of social integrity declines. First of all, establishing social credit system and improve related legislation become a prerequisite to resolve online integrity problem in China.

Owing to virtuality and anonymity of the cyberspace, the evaluation and supervision of online integrity is different from that of offline world. China needs to make more efforts to improve online credit evaluation system and to improve related techniques and methods.

### **Improve Corporate Ethics of Internet Commerce**

Corporate ethics refers to ethical issues involved in organizational structure and behavior, including value orientation, fairness for others, etc. Employees' ethics decision-making in an organization differs from that in their private lives, because it is difficult for individuals to make ethical decisions independent of the pressure of organization. Corporate ethics has a very important impact on their employees. The corporate with a good business ethics can help individuals to make good business ethics decisions.

Corporate ethics is an important part of the corporate culture<sup>[21]</sup>. Corporate culture is the explicit expression of corporate values, beliefs and customary rule. Corporate ethics should be consistent with not only laws and regulations but also social values. If a company does not manage its corporate culture effectively and its business ethics deviates from the social ethics norm, then the company will commit social suicide and the company may not achieve sustainable development in the future. Although the vitality of Internet commerce is amazing, the development of Internet companies will be affected if they do not effectively manage their business ethics in the pursuit of success and profits. Moreover, it would be difficult to keep Internet commerce grow healthy and orderly.

Corporate culture is from top to bottom<sup>[21]</sup>, so is corporate ethics. At the corporate level, ethical norms and guidelines need to be set up. It is necessary for Internet companies to train and supervise their employees about business ethics. In other words, corporate culture should make their employees understand what are acceptable behavior patterns about business ethics. It is very harmful for Internet companies to overlook business ethics in corporate culture. In 2012, Taobao.com corruption scandal not only badly damaged the reputation of Taobao.com but also affect Chinese people's trust on Internet commerce<sup>[38]</sup>. Some employees of Taobao.com received bribes from online shop owners and helped them remove consumers' malicious comments and raise credit ratings. Since 2007, many staff of Taobao.com, including some executives, have been dismissed, but corruption remained intensified and it is very difficult to remove corruption thoroughly<sup>[38]</sup>. This is because Taobao.com didn't put a high premium on business ethics in its corporate culture, thereby Taobao.com didn't have a system to curb corruption in the beginning. Taobao.com needs a effective supervision and incentives system to improve corporate ethics. In China, the scandal like Taobao.com corruption is not unique, improving corporate ethics in Internet commerce is urgently needed to be solved in China.

### **Improving Individual ethics of Internet commerce**

Although institutional ethics and corporate ethics can restrict employees' behavior, people still have their own values that can affect their activities. So, it is necessary to improve individual ethics of Internet commerce. This include laws, regulations, social

ethics education and training. If the level of society ethics has increased, individual ethics will also be improved in Internet commerce.

### CONCLUSION

Information and Internet technology develop very fast, so does Internet commerce. But the culture which includes morality and ethics develops slowly. The different developing rhythm of the two lead to that the pace of technology change is far greater than that of ethics development, then ethics lag arises. This is the reason of business ethics problems in Internet commerce.

There is no particular Internet or e-commerce business ethics, but business ethics in Internet commerce has different manifestations and scope compared with traditional business. Therefore, the practice of business ethics in e-commerce environment has its own characteristics. The two most prominent problems are online privacy and integrity. Especially, Mobile Internet technology, Cloud technology and Big Data technology bring challenge to online privacy protection.

To resolve these business ethics problems, the governance of business ethics in Internet commerce include three levels---institutional ethics, corporate ethics and individual ethics. At institutional ethics level, relevant laws and regulations should be improved, and industry self-regulation self should be enhanced. At corporate ethics level, Internet companies should manage business ethics in corporate culture and should establish a effective ethics supervision and incentives system from the perspective of long-term development. At individual ethics level, governments and society should promote social ethics development by laws, regulations, education and training.

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